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TAGS: ETRD ECON EINV PK
SUBJECT: PAKISTAN'S TEXTILE SECTOR IN CRISIS

¶1. (U) Summary: Pakistan's textile sector is facing a crisis. A hefty rise in natural gas prices, rolling blackouts, and the announcement of the 2008-2009 Trade Policy - which lacks subsidies and support for the textiles and apparel sector - have fed industry woes. Textiles are the largest single export industry in Pakistan producing half of total exports, and difficulties in the sector have contributed to Pakistan's growing trade deficit. End Summary.

¶2. (SBU) Textiles make up approximately 51 percent of Pakistan's total exports and provide approximately one-third of manufacturing jobs in the country. In FY2007-08 the sector experienced a 20 percent decline in exports by quantity and a 2.1 percent decline by value. A representative of the All-Pakistan Textile Mills Association (APTMA) attributed these declines to multiple reasons. Primarily, production capacity has fallen due to a severe energy shortage in the country and price increases in raw materials. The industry faces strong price competition from neighboring China, India and Bangladesh which heavily subsidize their own textile industries. Overseas buyer confidence has been hurt by political instability and the deteriorating security situation in Pakistan. APTMA also complains about EU anti-dumping regulations against Pakistani textiles. Finally, the increase in the domestic lending rate from 4.5 percent to 13 percent has discouraged new investment in the sector.

¶3. (U) Due to the chronic 4500 mega-watt energy shortfall throughout Pakistan, most export oriented textile and apparel manufacturers have shifted to natural gas self-generating power facilities to ensure minimal production capabilities. On June 30, in an unexpected move, the Oil and Gas Regulatory Authority (OGRA) raised natural gas prices by 31 percent for general users and by 68 percent for self-generating power plants. After outrage from the industry, on July 15, the Economic Coordination Committee (ECC) ordered OGRA to reduce the tariff increase for self-generating industrial plants to 31 percent which will significantly impact the overall competitiveness of the industry. Many manufacturers also use hot water produced as a by-product of power generation for processing fabrics. Such price hikes have an immediate impact in a sector that is already struggling to compete in the global market and faces looming increases in competition at the end of 2008 when the U.S. safeguard program ends against China.

¶4. (U) According to APTMA, the textile industry in Pakistan consumes 16 million bales of cotton per year. Pakistani cotton growers produced 11.8 million bales in FY 2007-08 and their target for FY2008-09 has been lowered from 14.11 to 12.6 million bales. In

July, India announced that it would drop import duties on cotton, thus increasing demand for Pakistani cotton exports and raising local cotton prices. The raw cotton shortfall in Pakistan is supplied through imports. Pakistan is one of the largest buyers of U.S. Pima cotton. However, a 17 percent drop in the Pakistani rupee's value against the dollar since January cuts into the manufacturers' buying power, further feeding the decline in production capacity.

¶5. (U) The new Trade Policy for FY2008-09 was announced July 19 and had a conspicuous lack of textile concessions. Subsidies in the previous fiscal year were set at PKR 48 billion (approximately USD 679 million) for textiles and fertilizers. After considerable pressure from the industry, the ECC announced on July 30 that a research and development subsidy program equaling six percent of total sector exports would be extended for the apparel sector until the end of June 2009. However, home textile manufacturers and cloth exporters will not benefit and money for the subsidies has not yet been identified given the severe budget crunch facing the Government of Pakistan.

¶6. (SBU) Comment: Because it represents such a significant portion of Pakistan's economy, the textile sector's troubles have a negative impact on the economy as a whole. In view of rising input costs, energy shortages and domestic troubles, textile industrialists say they are reluctant to spend money investing in upgrades to boost value-added production. Their habitual fallback is to pressure the government for continued subsidies that only put further pressure on the national budget in exchange for ever diminishing returns. End comment.

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